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Lead analysts:

Andrey Piskunov, Senior Director  
+7 (495) 139-0485  
andrey.piskunov@acra-ratings.ru

Elena Anisimova, Expert  
+7 (495) 139-0486  
elena.anisimova@acra-ratings.ru

## Key rating assessment factors

## Key assumptions

## Potential outlook or rating change factors

# ACRA affirms BBB+(RU) to the Tambov Region, changes outlook to Positive, and affirms BBB+(RU) to bond issues

The outlook on the credit rating of the [Tambov Region](#) (hereinafter, the Region) has been changed to Positive because the Region's debt repayment schedule has improved. The rating is supported by stable budget discipline indicators and sufficient budget liquidity. The credit rating is affected by the agricultural focus of the regional economy, which restricts budget revenue growth rates.

The Tambov Region is located in the Central Federal District, and borders five regions. A little less than 1% of the Russian population live in the Region. In 2016, the Region's GRP amounted to RUB 311.4 bln (about 0.5% of the aggregate national GRP). The regional economy is focused on the agricultural sector, which generates up to a third of the Region's GRP.

**Declining risks connected with bank loans refinancing amid moderately growing debt loan.** The Region has prepaid a part of bank loans through bond issuance and budget loans restructuring to improve the debt repayment schedule significantly and shift peak repayments (45%) from 2018 to 2021–2022. ACRA expects a moderate growth in the Region's debt (up to RUB 17 bln) and the continued practice of early refinancing of the bank loan portfolio. In the forecast period, the ratio of debt to operational balance of the Region will remain at a safe level (no more than 1.5x by late 2019), and the debt servicing costs will not exceed 20% of the operational balance.

**Stable budget discipline indicators with a large share of capital expenditures.** The regional budget's self-sufficiency is medium, and the budget discipline indicators show high capital expenditures, which, however, has gradually declined (from 31% in 2014 to 26% in 2017). Mandatory budget expenditures (61% on average in 2014-2017) have no adverse effect on the Region's operating balance but grow slowly. Tax revenues are deemed to be well-diversified: the share of top 10 taxpayers was below 21% of the total tax revenues in 2014-2016. However, ACRA notes budget risks associated with tax base concentration on related industries (agriculture and agricultural product processing). The aggregate share of those industries in the Region's GRP is about 30%, in tax proceeds – 15%. Further growth in proceeds will correlate with wage dynamics and agricultural product processing technology.

- Using short-term loans provided by the Federal Treasury Department for financing cash gaps;
- Financing of Region's budget deficit through market debt instruments;
- Improvement of regional debt structure in terms of maturity;
- Retaining the share of mandatory expenditures at the level within 65% of budget expenditures.

The **Positive outlook** assumes that the rating will most likely change within the 12 to 18-month horizon.

**A positive rating action may be prompted by:**

- Further positive changes in the debt repayment schedule on the back of early repayment of bank loans due in 2021–2022;
- Lower debt service costs achieved through substitution of bank loans by bond issues.

**A negative rating action may be prompted by:**

- Growing mandatory expenditures of the Region's budget and higher debt load;
- A breach of budget loan restructuring conditions (in terms of debt growth rates) with subsequent acceleration of budget loans.

**Issue ratings**

[The Tambov Region, 35002 \(ISIN RU000A0JWT75\)](#); maturity date: September 20, 2023; issue volume: RUB 1.6 bln — **BBB+(RU)**.

[The Tambov Region, 35003 \(ISIN RU000A0JXVH8\)](#); maturity date: July 12, 2024; issue volume: RUB 3.5 bln — **BBB+(RU)**.

[The Tambov Region, 35004 \(ISIN RU000A0ZYJ18\)](#); maturity date: December 5, 2025; issue volume: RUB 3 bln — **BBB+(RU)**.

**Rationale.** The Agency is of the opinion that bonds issued by the Tambov Region have a status of senior unsecured debt. Credit ratings of such debt instruments correspond to the credit rating of [the Tambov Region](#).

**Regulatory disclosure**

The credit ratings of the Tambov Region and bonds issued by the Tambov Region (ISIN RU000A0JWT75, ISIN RU000A0JXVH8, ISIN RU000A0ZYJ18) have been assigned under the national scale for the Russian Federation based on the [Methodology for Credit Ratings Assignment to Regional and Municipal Authorities of the Russian Federation](#) and the [Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#). In the course of assigning credit ratings to the bond issues above, Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation has also been used.

The credits rating assigned to the Tambov Region and the bonds (ISIN RU000A0JWT75, ISIN RU000A0JXVH8, ISIN RU000A0ZYJ18) issued by the Tambov Region were first published by ACRA on July 3, 2017 and July 11, 2017, July 14, 2017, and December 13, 2017, respectively. The credits ratings assigned to the Tambov Region and the bonds (ISIN RU000A0JWT75, ISIN RU000A0JXVH8, ISIN RU000A0ZYJ18) issued by the Tambov Region are expected to be revised within 182 days following the rating action date (June 21, 2018) as per the [2018 Calendar of planned sovereign credit rating revisions and publications](#).

The credit ratings are based on the data provided by the Tambov Region, information from publicly available sources (the Ministry of Finance, the Federal State Statistics Service, and the Federal Tax Service), as well as ACRA's own databases. The credit ratings are solicited, and the Tambov Region Administration participated in their assignment.

No material discrepancies between the provided data and the data officially disclosed by the Tambov Region in its financial report have been discovered.

ACRA provided no additional services to the Tambov Region Administration. No conflicts of interest were discovered in the course of credit rating assignment and affirmation.

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Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)  
75, Sadovnicheskaya embankment, Moscow, Russia  
[www.acra-ratings.com](http://www.acra-ratings.com)

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